

TENNESSEE REGULATORY AUTHORITY



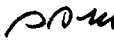
Lynn Greer, Chairman
Sara Kyle, Director
Melvin Malone, Director



460 James Robertson Parkway
Nashville, Tennessee 37243-0505

MEMORANDUM

TO: Chairman Lynn Greer
Director Sara Kyle
Director Melvin Malone

FROM: Austin J. Lyons, Chief
Telecommunications Division 
Chris Klein, Chief 
Economic Analysis Division
Dennis McNamee, General Counsel 

DATE: October 16, 1997

RE: Universal Service (Docket 97-00888)

As requested at the October 7, 1997, TRA Conference, the staff and the parties conducted a technical conference on October 14, 1997, to refine further the plans for resolving the issues in this docket. A report on this meeting is attached.

At the conference, the parties were also asked to consider providing the TRA with certain information by November 14, 1997. This information will help the agency both to prepare for Phase 2 of Universal Service and to provide the FCC with comments related to Universal Service cost methodology in the event the FCC elects not to extend the February 6, 1998, date.

Since the attendees at the October 14 meeting need to consult with others in their companies before responding to some of the questions raised, a due date of October 21 was established for such responses. The staff will then prepare recommendations for your consideration by October 24.

To accommodate a schedule which allows time for possible discovery requests, we recommend that a hearing be held on October 28, 1997, to consider the recommendations of the staff and the parties, and to approve a plan for completion of the work.

c: David Waddell
Eddie Roberson

given the number of parties in this case, it is unlikely that a settlement of the issues will be reached in the time available. Any such settlements, or stipulations shall be made in writing by all the parties. It was suggested that the issues identified by the Staff as "Settlement possible" might simply require briefs and not testimony. The parties agreed to file proposed issues for briefs alone by October 21.

Scheduling

The Staff presented schedules to the parties for completion of both Phase 1 and Phase 2 of this proceeding. After some discussion, the Phase 1 schedule was further revised to meet concerns of the parties and to add dates for discovery.¹ Additionally, it was agreed that the briefing schedule will coincide with the dates for filing direct and rebuttal testimony.

While the hearing dates and decision dates on Phase 1 remain the same as adopted by the Directors on October 7, filing dates were extended to allow parties to comment on the proposals presented at this Technical Conference and to allow parties time for discovery. A special TRA Conference on October 28 was proposed for a final decision on the identification of the issues. The proposed schedules as revised for Phase 1 and Phase 2 are included as Attachments 2 and 3, respectively.

The parties also agreed that if incorporating certain access charge reform issues into the Phase 2 schedule of Universal Service was appropriate (Issue 15), then they would consider developing a jointly prepared list of those issues by November 14, 1997.

October 21, 1997 filings by the company

To summarize, the parties were asked to provide inputs on the following items by October 21, 1997.

- Comments on whether the new issues identified by the Staff for Phase 1 are appropriate. Those issues are 8d and 3, 9a and f through k, and 15.
- A statement on each of the issues as to whether a settlement is possible or whether the issues can be handled by briefs alone i.e. - testimony at a hearing will not be necessary).
- Identification of issues of law and comments on the proposed briefing schedule.
- Comment on the issues identified for Phase 2.
- Comments on the schedule for completion of Phase 1 and Phase 2.
- Whether a response to Issue 16 could be delivered by November 14.
- Whether a list of Access Charge Reform Issues to be worked jointly with the Phase 2 issues could be delivered by November 14.

¹ After much discussion among the parties on the need for discovery in Phase 1 it was decided that discovery was necessary and dates were built into the proposed schedule.

**Universal Service Issues
Docket 97-00888**

I. Phase I - Non-Cost Issues

1. Define and determine what services are to be supported by a Tennessee universal service support system? (Settlement possible)
 - a. Do we use state or Federal defined services? 1(a)(i)
 - b. Should we provide support in addition to Federal mandated services? 1(a)(ii)
 - c. What are the universal service core elements? 5(a)(iii)
 - d. Does Tennessee Relay Center need to be addressed in this proceeding? 14(a)(iii)
 - e. Do public interest payphones, if determined to be necessary, need to be addressed in this proceeding? 14(a)(i), 14(a)(ii)
2. Will all carriers be able to provide all elements of universal service? 1(b)(i) (Settlement possible)
 - a. How should the TRA address “exceptional circumstances?” 1(a)(iii)
3. What carriers/providers are eligible to receive support? (Settlement possible)
 - a. What procedures will TRA use for designating ETC. 2(a)(ii)
 - b. Should those companies not under TRA authority be designated as an ETC? 2(a)(iv)
 - c. Should the TRA adopt the Federal advertising guidelines? 2(a)(v) and 2(a)(vi)
 - d. Should the TRA adopt the Federal facilities requirements? 2(a)(vii)
 - e. Must a carrier participate in this proceeding to be eligible for designation as ETC? 2(a)(xi)
 - f. What procedure is necessary to ensure that rural carriers satisfy notice of status requirement? 2(b)(vi)
4. Define carrier of last resort designation. (Likely to be contested)
 - a. Is this term still relevant? 2(a)(ix)

- b. If so, how do we designate? 2(a)(ix)
 - c. Can a carrier of last resort withdraw service and if so how? 2(a)(x)
- 5. Define service areas. (Settlement possible)
 - a. How does the TRA designate service areas for rural and nonrural areas? 2(a)(i)
 - b. Should ETC and service area be the same? If not, what are alternatives? 2(a)(iii)
 - c. Should rural carriers be required to file proposed service area and can others comment on that filing? 2(b)(ii)
 - d. Determine if there are any unserved areas in Tennessee. 2(b)(i)
- 6. What carriers/providers must provide support under a Tennessee universal service system? (Settlement possible)
 - a. Define telecommunications carrier. Is the TRA required to use the Federal definition? 3(a)(i)
 - b. Does state or Federal law require contributions or participation from carriers not under TRA authority? 2(a)(ii), 3(a)(ii)
- 7. How do we determine if rates are affordable? (Likely to be contested)
 - a. If current rates are set using existing statutes, are rates considered affordable? 4(a)(iv)
 - b. Must the TRA use Federal standards for affordability? 4(a)(i)
 - c. If so, how do we gather information and apply the Federal standards in this case? 4(a)(ii) and 4(a)(iii)
- 8. How does the TRA define implicit and explicit subsidies? (Likely to be contested)
 - a. Determine definition. 4(a)(vi)
 - b. How does the TRA determine implicit subsidies in current rates? 4(a)(vii)
 - c. How does the TRA make implicit support explicit as defined by the Act and the FCC? 4(a)(viii)
 - d. What cost methodology should be used to determine existing implicit subsidies?

- e. Should the TRA identify implicit subsidies by element or groups of elements?
9. Preliminary cost modeling issues. (Likely to be contested)
- a. Should universal service cost studies be company-specific or generic?
 - b. What is the proper territorial scope of universal service rates (e.g., statewide by carrier, by service area, or by category of support? 4(a)(v)
 - c. What is the proper level to which deaveraging should be applied in the cost studies? 5(a)(v)
 - d. Should rural and non-rural study areas be combined or separated in the cost studies? 5(a)(iv)
 - e. Which network elements are necessary to provide services included in universal service? 5(a)(vi)
 - f. Should universal service cost studies be based on cost studies for permanent UNE prices?
 - g. Should costs be developed on a combined or intrastate basis?
 - h. Should state specific or federal factors be used in the cost studies?
 - i. Is it possible to create a hybrid model from the individually proposed models?
 - j. Which network elements should be included in the revenue benchmark?
 - k. What time period should be used to calculate the revenue benchmark?
10. How should the TRA determine the basis for support for “low income consumers?” (Possible settlement for portions. Funding will be contested)
- a. Should the TRA change its existing Lifeline program? 6(a)(ii)
 - b. What standards and procedures should be adopted to address waiver requirements to the no-disconnect rule? 6(a)(iii)
 - c. What funding mechanism should be adopted to fund Lifeline and Linkup? 6(a)(v) and 9(a)(iii)
11. What support in addition to the Federal support already adopted by the TRA should be provided to schools and libraries? (Likely to be contested)
- a. The TRA should state specifically what discounts are available in Tennessee and at what levels. 7(a)(i), 7(a)(ii) and 7(a)(iii)
 - b. How does the TRA address pre-discount price complaints? 7(a)(iv)

12. What support should be provided to health care providers? (Settlement possible)
 - a. Should the TRA provide support in addition to that provided for by the Act and the FCC? 8(a)(i)
 - b. If so, who should pay for it and how? 8(a)(ii)
13. How should the TRA monitor provision of supported service to determine if support is being used as intended until competition develops. 2(a)(viii) (Likely to be contested)
 - a. Does the TRA need cost allocation rules or accounting safeguards to determine that services supported do not bear more than a reasonable share of joint and common cost or otherwise unnecessarily subsidize a service? 9(a)(iv)
14. Are any changes in state laws or rules needed? 1(b)(ii) (Likely to be contested)
 - a. Is there a conflict between federal statute provision that universal service support should be explicit and the Tennessee statute requirement? 4(a)(ix)
 - b. How does the TRA reconcile state universal service statute with federal statute on “sufficient” universal service funding. 9(a)(i)
 - c. Will rules have to be changed to allow various regulatory schemes to provide for recovery of any universal service contributions? 11(a)(ii)
 - d. Will rules have to be changed to allow transition for carriers operating under various regulatory schemes? 12(a)(i)
 - e. If legislation is needed to appoint third party administrator it must be obtained. 13(a)(vi)
15. Should the access charge reform issues be incorporated into the schedule addressing Phase II of the universal service proceeding?

Phase II - Cost Issues

16. What cost model or method should be adopted to calculate needed universal service supports? (Likely to be contested) 5(a)(vii), 14(b)(i) and 14(b)(ii)
Note: the word “method” is used to mean “algorithm(s) and input value(s).”
 - a. What method should be used to population distributions within service areas?

- b. What method should be used to match a model's wire center line count to a LEC's existing wire center line count?
- c. What method should be used to determine the proper outside plant mix (i.e., the fractions of aerial, underground, and buried cable) and associated materials and installation costs?
- d. What method should be used to determine drop lengths and associated costs?
- e. What method should be used to determine structure sharing (e.g., poles, trenches, conduits)?
- f. What method should be used to determine the most economically efficient fiber-copper cross-over point?
- g. What loop design standards, if any, should be adopted for the cost model?
- h. What size(s) of digital loop carriers should the model incorporate?
- i. What wireless threshold, if any, should the model use?
- j. What method should be used to determine the materials and installation costs of manholes, poles, anchors, guys, aerial cable, building attachments?
- k. What method should be used to determine NID costs?
- l. What method should be used to determine the cost of investment and installation of service area interfaces?
- m. What method should be used to determine cable fill and utilization factors?
- n. What method should be used to determine the mix of host, stand-alone, and remote switches?
- o. What switch capacity constraints, if any, should the model employ?
- p. What method should be used to determine switching investment costs?
- q. What method should be used to determine the portion of total interoffice trunking, signaling, and local tandem costs to be attributed to universal service?
- r. What method should be used to determine costs of general support facilities (e.g., vehicles, land, buildings)?
- s. What method should be used to determine the economic depreciation rate of assets?
- t. What method should be used to determine plant-specific (e.g., equipment and maintenance), non-plant-specific (e.g., engineering, network operations), customer service (e.g., marketing and billing), and corporate (e.g., legal and accounting) expense factors?

- u. In which cases is it appropriate to allocate costs between the provision of universal service and all other services?
 - v. In cases where it is appropriate, what method should be used to allocate costs between the provision of universal service and all other services?
 - w. What, if any, local usage component should be included in universal service support?
 - x. What is the proper cost and percentage of equity?
 - y. What is the proper cost of debt?
17. How should cost model or methodology be applied? 5(a)(viii) (Likely to be contested)
- a. What is the cost of universal service?
 - b. How should cost be related to revenue benchmark and rates determined? 5(a)(ix)
 - c. How will contracts between LECs be treated? 14(a)(v)
18. During the transition period should rates be rebalanced? If so, how? (Likely to be contested)
- a. How will the TRA handle financial effects on carriers who have been providing support to existing system? 12(a)(ii)

Phase II - Administrative Issues

19. Should the TRA adopt new quality of service standards? 1(a)(iv) (Standards are likely to be contested)
20. How will affordability of rates be monitored in the future? (Likely to be contested)
- a. Will the TRA want ongoing reports on subscribership levels, etc.? 4(a)(xi) and 4(a)(xiii)
 - b. Does the TRA need special procedures to hear complaints on affordability? 4(a)(xii)
21. What should be the sources, and the amount of, support in a Tennessee universal service support system? (Likely to be contested)

- a. What base will be used to determine amounts paid into the system for support of the universal service fund? (i.e., end-user telecommunications revenues) 9(a)(ii) and 9(a)(v)
- 22. How may universal service support contributions be recovered by the carriers/providers making them? (Likely to be contested)
 - a. Can carriers contributing to universal service fund recover those payments and if so how? 11(a)(i)
- 23. How should the transition from the current system to the new system take place. (Possible settlement)
 - a. What standards and criteria should govern the transition? 12(a)(vi)
 - b. What information, cost studies, etc. should be gathered as transition occurs? 12(a)(iv) and 12(a)(v)
- 24. How and by whom should a Tennessee universal service support system be administered and monitored? (Likely to be contested)
 - a. Can providers that make both contributions and receive support off-set those in supporting the fund? 12(a)(iii)
 - b. Can TRA designate third party administrator or must it administer the fund itself? If so, how is administrator chosen? If not, should a division within agency be created? 13(a)(i), 13(a)(iii), and 13(a)(v)
 - c. What duties will be separated between administrator and the TRA Directors? 13(a)(iv)
 - d. Should the TRA determine the cost of personnel, equipment and facilities needed by the administrator and build that cost into universal service fund? 13(a)(ii)
- 25. How will the TRA make sure the universal service system is nondiscriminatory and competitively neutral? (Likely to be contested)
 - a. Does the TRA need to develop specific guidelines to ensure nondiscrimination and neutrality? 10(a)(i) and 10(a)(ii)
 - b. How should TRA handle complaints that system is discriminatory and not competitively neutral? 10(a)(iii)
- 26. When will universal service be addressed again? 14(a)(iv) (Settlement possible)

**UNIVERSAL SERVICE
(PHASE 1)**

SCHEDULE

October 14, 1997	Universal Service Technical Conference
October 21, 1997	Parties Reply to Technical Conference Issues
October 28, 1997	TRA Decision on Issues & Schedules Discovery Requests Made (if necessary)
November 4, 1997	Discovery Responses Due (if necessary)
November 12, 1997	Direct Testimony & Briefs Due
November 19, 1997	Rebuttal Testimony & Reply Briefs Due
December 8-12, 1997	Hearings
January 13, 1997	TRA Decision on Phase 1 Issues

**UNIVERSAL SERVICE
(PHASE 2)**

SCHEDULE

January 13, 1998	TRA Conference: Directors Discuss any Changes to the Phase 2 Schedule
January 20, 1998	Staff Technical Conference: Cost Methodologies to be Employed in Phase 2
January 30, 1998	Telcos File Universal Service Cost and Revenue Data
February 6, 1998	Discovery Requests Due
February 17, 1998	Responses to Discovery Requests Due
March 2, 1998	Direct Testimony Due
March 10, 1998	Rebuttal Testimony Due
April 6-9, 1998	Hearings
April 17, 1998	Briefs Due (Optional)
May 5, 1998	TRA Decisions on Phase 2 Issues
May 15, 1998	Compliant Cost Studies Due
May 22, 1998	Comments Due on Final Cost Studies